



Agile Internal Audit

**White paper on working Agile
within Internal Audit Functions**

Part I: Introducing working Agile



June 2020

Agile Internal Audit



Complex, dynamic and interactive...

... are some of the key words for a continuously changing organisational environment. Change is the only consistent factor and the number of changes is increasing rapidly. This requires organisations to adopt an innovative way of working and thinking in order to remain successful.

Moreover, the ongoing COVID-19 crisis – dramatically impacting lives and healthcare systems, disrupting business operations and supply chains, slowing markets, and now posing the risk of a global recession – is putting nearly every facet of business to the test. Many questions remain unanswered regarding its short- and long-term ramifications on organisations regardless of the territories and industries they are in. It is crucial for Internal Audit Functions (IAFs) to assess the current situation and the impact of the coronavirus on their businesses and teams, in a holistic and collaborative manner.

How will you have to change your team's audit delivery to adapt? Could a more 'agile' audit methodology be part of the answer?

KPMG has summarized its international customer knowledge and experiences with Agile auditing in this (two-part) White Paper.

Part 1

Provides insight into the history, the context and the added value of conducting Agile audits within IAFs.

Part 2

Provides practical guidelines to aid IAFs in applying the starting points of Agile auditing in the design of the IAF, in the planning and during the execution of the audits.

Part 1

- Origin of agile
- Traditional Waterfall vs Agile
- Agile and Internal Audit
- Key Agile concepts
- Agile and the IPPF
- Agile Internal Audit Maturity Model

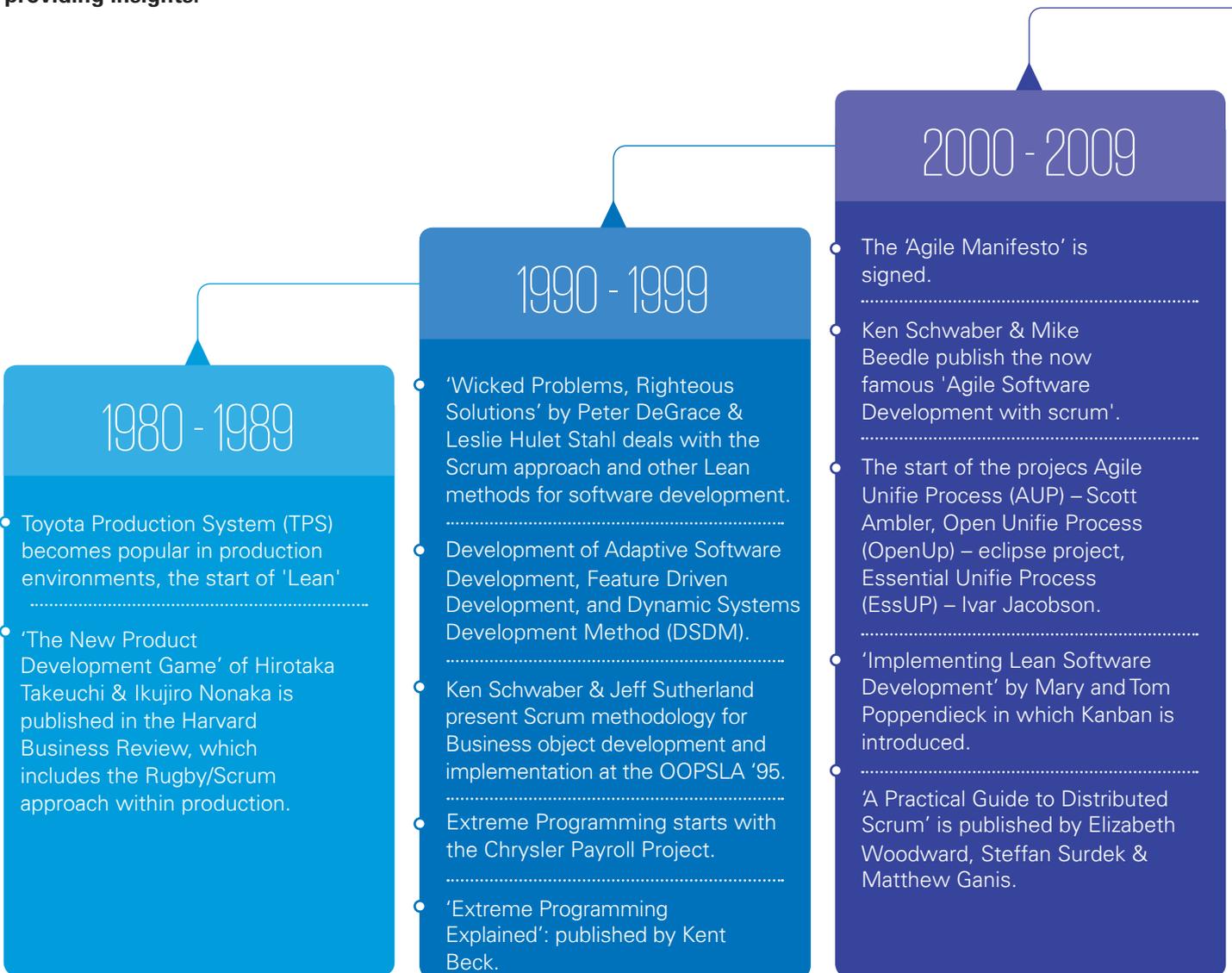
Part 2

- Agile approaches
- Impact of Agile on IAF
- Performing Agile audits
- Challenges and opportunities of Agile audits
- Casus: Agile auditing by front-runners
- Agile Do's and Don'ts

Origin of Agile

Agile is a collective name for methods based on the principles of the Agile Manifesto. Originally it was used in software development and nowadays it is used in all functions of an organization, including the second-line and third-line functions.

The objectives of applying the Agile principles within an IAF are: **increasing audit quality, short audit cycles, more interaction with the auditee and providing insights.**



2010 - present

- Agile application in organizational units other than IT
- From improvement projects outside the line to continuous improvement within the 'products'
- First pilots in the field of Agile auditing in Europe and the US

Recent developments & future

- Agile application for the entire organization
 - 1) Agile within the first Line Of Defense (LOD)
 - 2) Agile within the second LOD (a.o. risk, compliance)
 - 3) Agile Internal Audit
- In the future, a large number of IAFs will apply Agile auditing with varying degrees of maturity (see also the Agile IA Maturity Model on pages 10-11)



Agile (Auditing) timeline

Traditional Waterfall vs. Agile

Whereas the precursors of the Agile methodology can be traced back to the last century, their recognition and application are still under development.

Winston Royce introduced the Waterfall method in 1970, mainly to show how it should not be done. He was in favor of the *do-it-twice* approach, in which the focus is on splitting the project in small parts and acting on these. Paradoxically, since then most of the projects have been executed according to the Waterfall method.

(Internal) audits are also carried out on the basis of the Waterfall method. An audit exists of the following six phases: planning, preliminary research, fieldwork, reporting, evaluation and follow-up. Often, and based on the current interpretation of the Internal Audit standards, the next step phase will only be started when the previous one is completed.

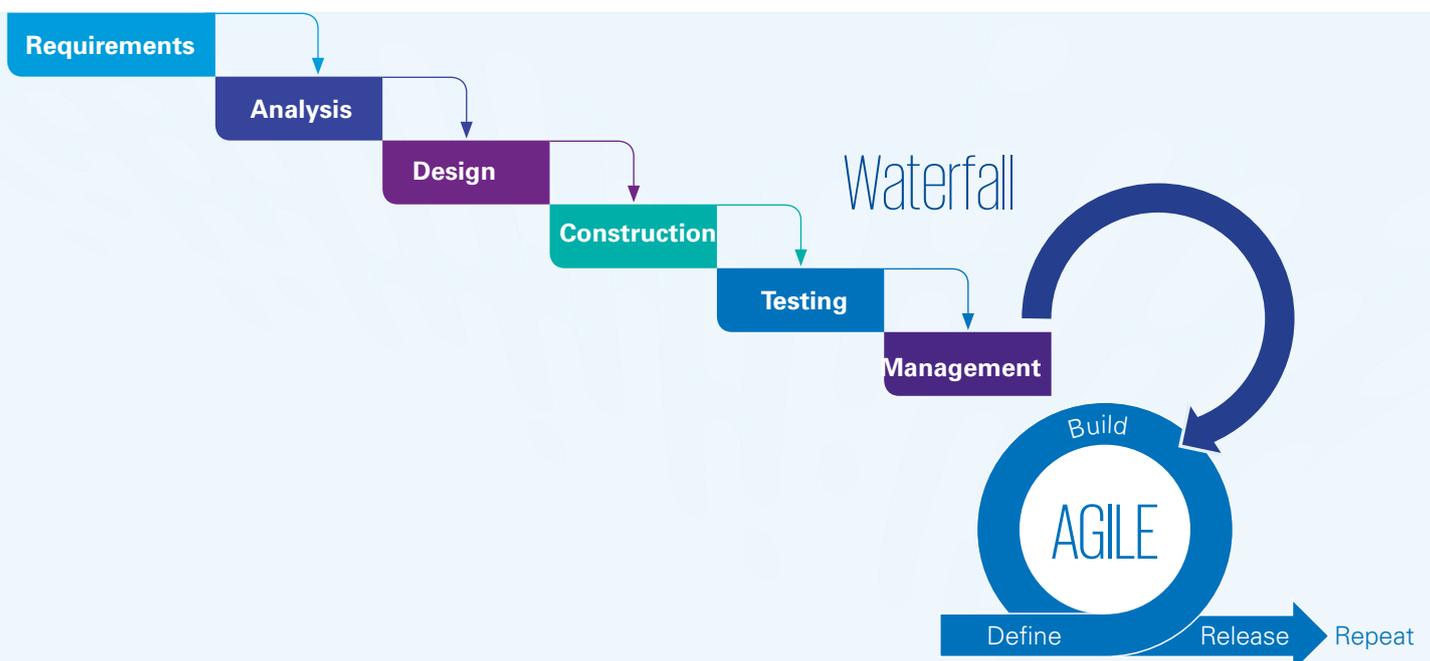
The Institute of Internal Auditors (IIA) Standard 2240 requires an approved work program prior to commencing the field work. At the same time, this Standard also offers space for adjustments to the working program during this field work phase of the audit.

When performing an Agile audit, this will be the rule rather than the exception. This requires an audit manager who approves all changes to the working program (and the reprioritization on the backlog).

Working Agile is certainly not something that all organizations should apply. In this respect, the environment and culture of the organization must always be taken into account. It is important to realize that the current Waterfall method is not necessarily the best solution for the IAF. For this reason, it is valuable to get acquainted with and to open up to new ways of thinking and working, such as Agile auditing.

This publication shows that in addition to the six audit steps, which method is applied by almost all IAFs, the integration of Agile methods can help increase the added value of the IAF and the internal control of organizations.

Distinctive features of Agile compared to the Waterfall method are: interactivity, flexibility and learning ability.



Agile and Internal Audit

The **Agile** philosophy is based on four principles:

- Individuals and interactions over processes and tools
- Working software is more important than comprehensive documentation
- Customer collaboration over contract negotiation
- Responding to change over following a plan

Agile Internal Audit is the mindset and method that an IAF uses to focus on the needs of stakeholders; accelerating the audit cycles, providing timely insight and reducing the waste of resources. By applying an Agile method, the productivity and added value of the IAF can be increased and the lead time of an audit can be reduced.

The key features of an Agile Internal Audit are:

- Different mindset of the auditors
- The approach of the audit is flexible
- The use of day starts
- Increased involvement of the auditee
- Continuous coordination of the product (report)
- Applying Agile principles that are relevant

KPMG's Agile IA Manifesto

- 1
Value creation for the client by focusing on the (Agile) result
- 2
Continuous optimization of the method by **welcoming changes**
- 3
Collaboration and multidisciplinary teams as a basis for the added value
- 4
Short iterations as an aid for timely adjustments in an audit
- 5
Flexible and dynamic Internal Audit Planning as a result of continuous risk monitoring

Scrum, Lean and Agile, what does it mean?

Scrum – a flexible way to make a product. Working in multidisciplinary teams that deliver working products in short sprints, with a fixed length of one to four weeks

Lean – a management philosophy in the field of operations management that aims to realize maximum value for the customer with as little waste as possible

Agile – an iterative method to bring wishes and demands to light and to continue to meet the ever-changing requirements

Key Agile concepts

To aid in developing a better picture of Agile auditing, a number of concepts from Agile are explained below.

Audit Backlog

An overview which is constantly updated with a dynamic determination of the audit (sub)topics. This offers flexibility compared to a static Internal Audit Plan (for example, one year). The items on the Audit Backlog are abstract regarding the scope, the process and the timing. When the IAF and its stakeholders (e.g. the board or the AC) redefine the audit needs, the item will be placed higher on the backlog until it is ready to be audited. Drivers within this process include the continuous risk analysis, the needs of stakeholders but also elements such as the date of the last audit in order to obtain a periodic cover of the total audit universe.

Definition of Ready (DoR)

An item on the Audit Portfolio Backlog is 'DoR' when the IAF and the stakeholders agree on what will be audited, on what the audit should achieve, the expected added value and the requirements for the auditee.

Audit Sprints

During the execution of the audit, the item is removed from the backlog, and the various scope elements will be divided into defined auditable subjects, so-called sprints. Sprints are periods in which an element has to be completed, for example two to four weeks. Sprints provide a process, structure and rhythm for the work. The time period – in which the audit team has to fulfill an element – must ensure a tight deadline, without causing stress. The process is continuously optimized by means of interactive (weekly) sessions. At the end of each sprint, the IAF organizes a demo in which the observations are presented to the auditee. This demo creates support for observations and aids in identifying possible solutions.

Reduce waste

Within Agile auditing, the reduction of waste is one of the core concepts. Waste can express itself in various forms: waiting for something to continue (e.g. an auditee who does not deliver), unnecessary amounts of movements (e.g. travel), processes that are not described logically (e.g. too much time necessary for preparation) or producing excessively (e.g. unnecessarily long audit reports).

Daily Stand-up

The daily stand-up is a daily meeting of the audit team of up to 15 minutes. The purpose of the stand-up is to coordinate the work and plan the next 24 hours. During the stand-up meeting, everyone answers three questions:

1. What have I achieved since the previous stand-up?
2. What will I achieve today?
3. Do I expect obstacles, and can the audit team help me with them?

The aim of the audit sprint is always kept in mind during the stand-up. In doing so, the stand-ups make it more likely that the goal of the audit sprint will be achieved.

Definition of Done (DoD)

DoD describes the output of the audit sprints. It can be expressed in a degree of certainty, a list of observations, risks or recommendations – depending on the wishes of the stakeholders and the IAF. A DoD helps to indicate the moment a sprint has been completed from the perspective of the audit product owner. If the overall DoD audit is completed, the audit is finalized.

Sprints Retrospective

Within an Agile audit it is a common practice to organize a retrospective at the end of each sprint, in which all issues in the audit process are discussed and solved where possible. Here, it is important that you create a safe environment within the audit team, where everyone can name the 'waste' without any consequences, otherwise the issues will not be brought forward.

Agile and the IIA Standards

Within the IIA standards, a distinction is made between the standards concerning the design of the IAF (Attribute Standards 1000 series) and the standards for performing audits (Performance Standards 2000 series). The application of an Agile method within an IAF has an impact on compliance with the IIA standards. Some examples:

1210

- ▶ Professional competence. Using Agile methods requires different knowledge and skills from the internal auditor. For example, when using a Scrum method, at least one specialist (the Scrum master) is required to manage the processes into the right direction. In addition, the understanding of other roles and role resistance is also of great importance.

1300

- ▶ Quality assurance and improvement program. The system must assess the quality of the IAF and identify improvements. This might be the biggest challenge for Agile auditing, since every audit needs to be adequately documented since an independent reviewer should be able to 'repeform' the audit based on the documentation. It is important to ensure that the recording and approval of the work is carried out properly at all times. Agile auditing does not release the IAF from its obligation to record a good audit trail.

2010

- ▶ Planning. Within an Agile way of working, the way in which the goal will be achieved is not predetermined. The possibilities to change the annual audit plan (or: backlog with objects to be audited) require the attention of the IAF with regard to the risk-based planning, so that the prioritization of the audit backlog can be determined.

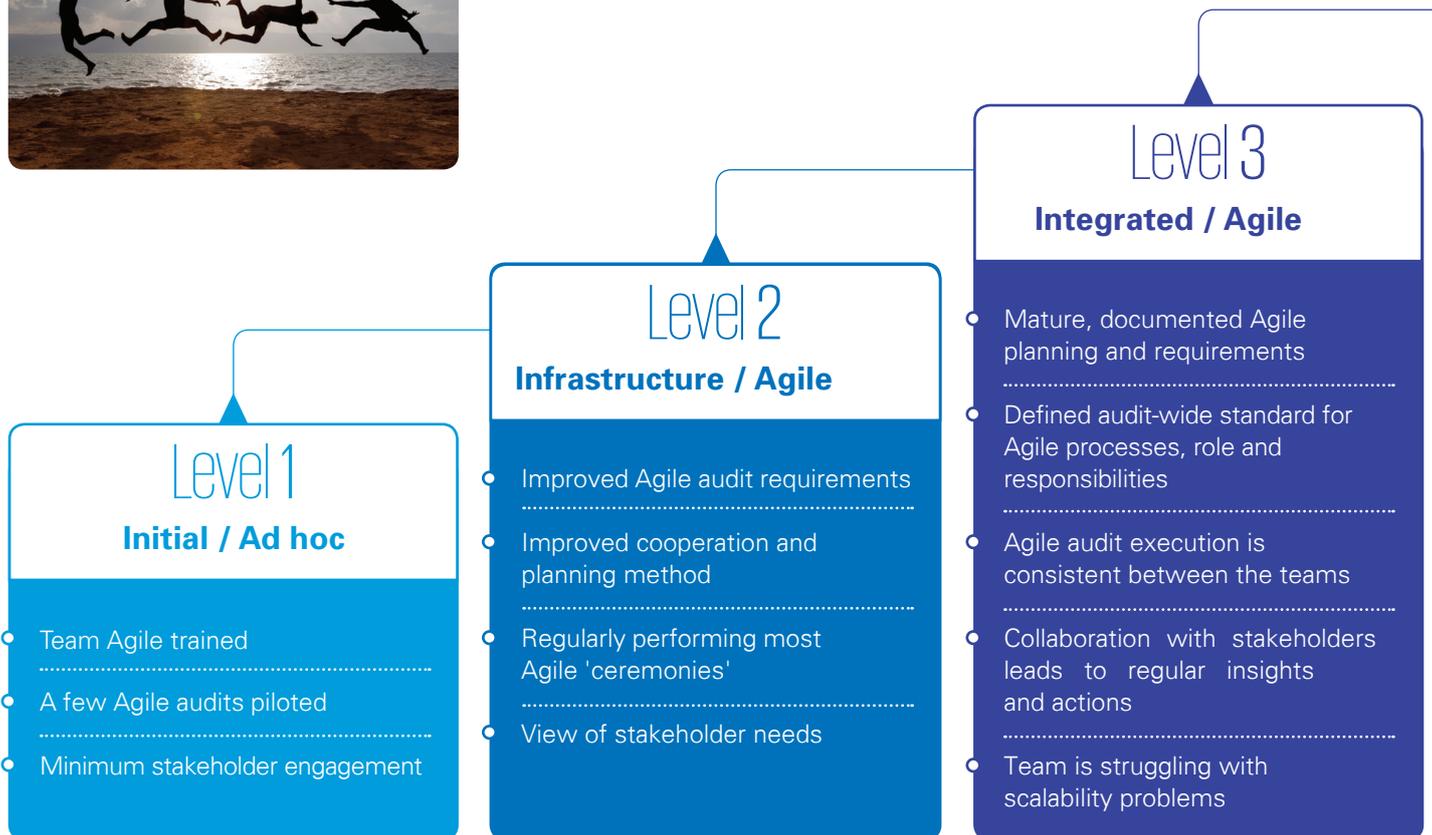
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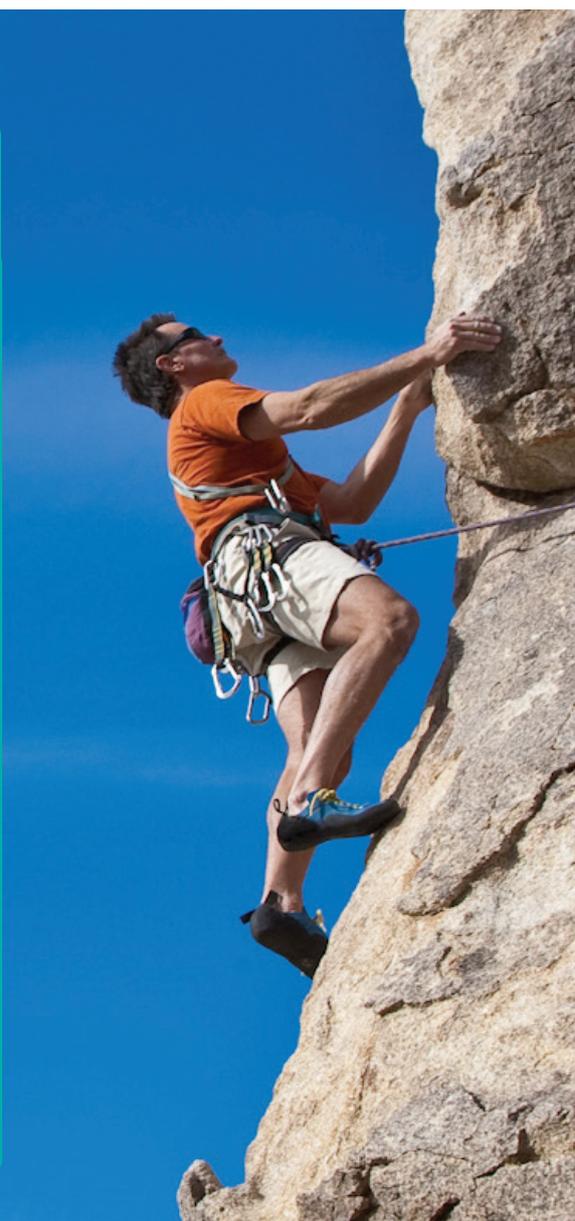
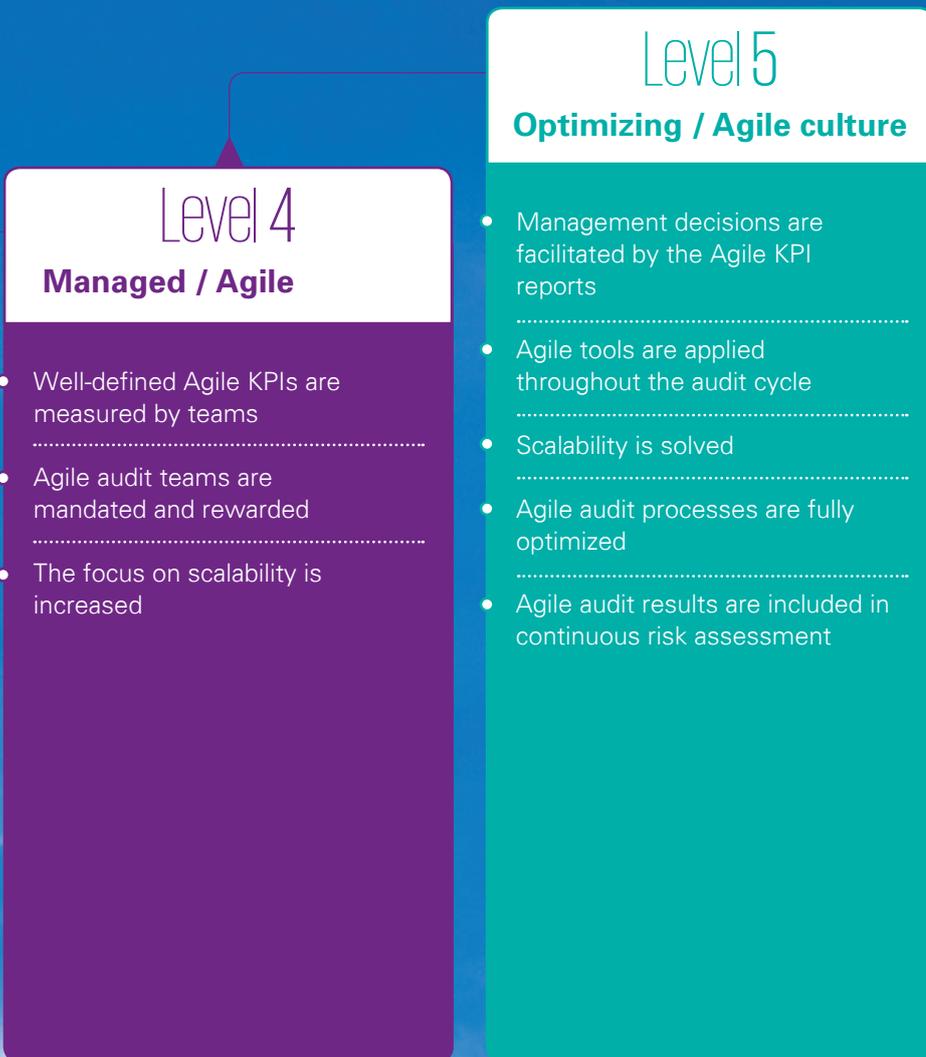
- ▶ Planning the assignment / preparation of the work program. A flexible way of working is an important characteristic within an Agile audit. For example, the use of sprints to perform an audit: splitting the scope into sub-products, more iterations and shorter lead times instead of a fixed sequential schedule. Changes of the scope or working program must be approved by the CAE or a delegate.

2330

- ▶ Documenting information. Conducting an audit via an Agile method is likely to result in a more efficient way of documenting how the conclusions have been established. To meet the standards, it is important to have at least an audit trail that shows how the findings and the conclusions have been established. (See also 1300).

Agile Internal Audit Maturity Model





Agile Internal Audit – Maturity Model

(with scales according to the IIA Ambition Model)

In summary, why is Agile Audit relevant for the IAF?



Focus on continuous **prioritization** of focus areas and thereby providing **relevant insight**



Shorter audit cycles and faster delivery of (sub) product



Increased **audit quality**



More **interaction** between the audit team and the auditee, which improves the management of expectations

How?

Part II, to be continued

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